

# FDIC State Profile

Fall 2005

## Connecticut

Connecticut's employment picture continues to recover from the 2001 recession.

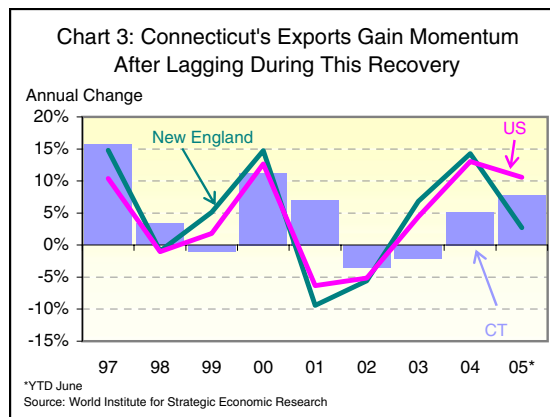
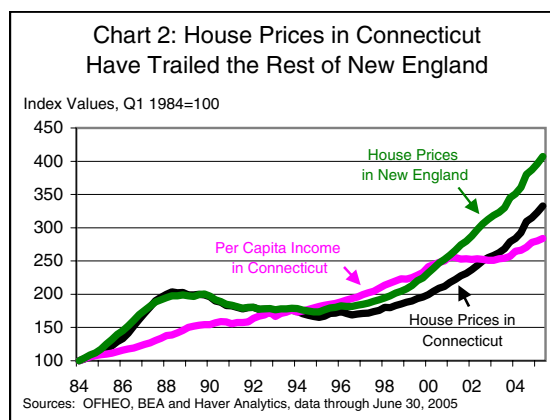
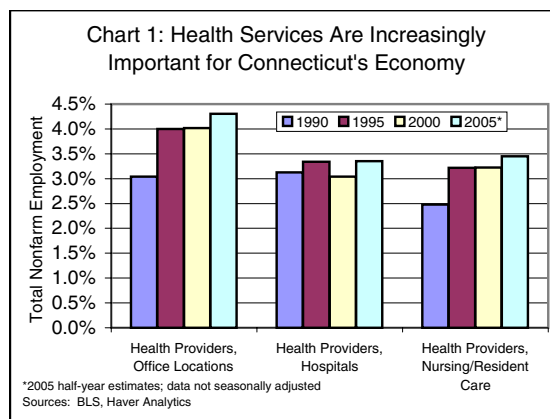
- Although Connecticut lost 62,400 jobs during the recession and has a history of slow growth in employment, job gains since September 2003 have reversed about one-half of these losses.
- Connecticut's unemployment rate, however, has not declined. It continues to hover near 5.0 percent, similar to its average for 2004, and is near the national rate, which in August fell to just under 5.0 percent.
- The announcement by the Base Realignment and Closure Commission removing the Naval Submarine Base in Groton from the list of recommended closures is extremely good news for the state's employment picture and overall economy.

### Health care jobs have grown in importance in Connecticut.

- Employment in health services has increased substantially over time and accounts for an increasing percentage of nonfarm employment (see Chart 1). The largest increases have occurred in medical offices outside of hospitals and in nursing and resident care facilities.
- Connecticut's share of employment in health services is slightly below the regional average but well above the national average. As of the first half of this year, employment in health services was 11.1 percent in Connecticut, compared with 11.5 percent for all of New England and 9.2 percent nationally. Hospital employment has increased by about 10 percent since 1990 and is the lowest in terms of the relative share of total employment for states in New England.

### House prices have continued to rise rapidly in Connecticut.

- Since 1984, house prices in Connecticut have increased more rapidly than per capita personal income in the state (see Chart 2). Increases in house prices through the second quarter 2005 averaged 5.8 percent per year, compared with increases in per capita income that only averaged 5.0 percent. Declining mortgage rates contributed to the higher home prices, as the 30-year



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conventional rate ranged from a high of more than 13 percent in 1984 to a low of 5.5 percent during 2003.

- Over the four quarters ended in second quarter 2005, house prices rose by 13.6 percent in Connecticut. House prices in the region rose by 13.0 percent, while nationally the increase was 13.4 percent. These increases—in the state, region, and nation—have been very impressive, but are unlikely to be sustained given the slower rate of per capita income growth and the upward trends in interest rates.

### Connecticut's exports have declined in importance.

- During the recession, Connecticut's exports declined less than the county or the region, but more recently, export growth has not rebounded as quickly (see Chart 3). In 2005, the state surpassed previous levels of exports, albeit by a very small margin compared to the United States.
- Connecticut's more moderate pattern of export growth is at least partly due to the "old economy" nature of most of the state's exports. The top three sectors are transportation equipment (43 percent of total exports), machinery (11 percent), and computer and electronics (9 percent). For the New England region, computers and electronics is the top export sector, accounting for 30 percent of the total.
- In 2004, Connecticut's exports were only 4.6 percent of gross state product, down from 5.1 percent in 1997 and well below the U.S. and regional averages of 7.0 percent and 6.0 percent, respectively.

### Community institutions in Connecticut remain profitable, but mortgage lenders experience more stable earnings.

- Connecticut's community institutions<sup>1</sup> remained profitable through second quarter 2005, but community mortgage specialists<sup>2</sup> continued to report more stable earnings than non-mortgage community institutions (see Chart 4). Non-mortgage institutions reported lower noninterest income and increased provision expenses, which both contributed to a lower bottom line. Net interest margins (NIMs) continued to rebound from improvements in asset yields, which more than offset increases in funding costs.
- The state's community mortgage lenders reported stable earnings as of June 30, 2005, as income and expenses remained steady. NIMs also remained steady as small increases in funding costs were offset by slight increases

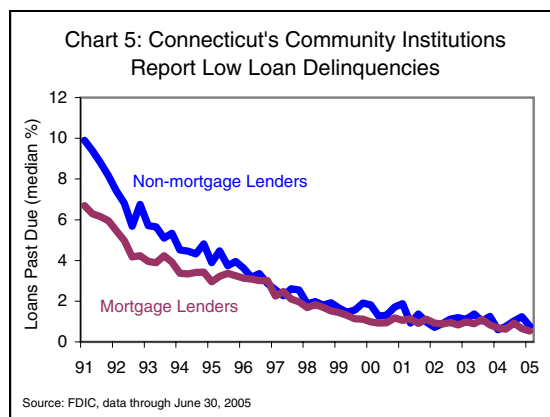
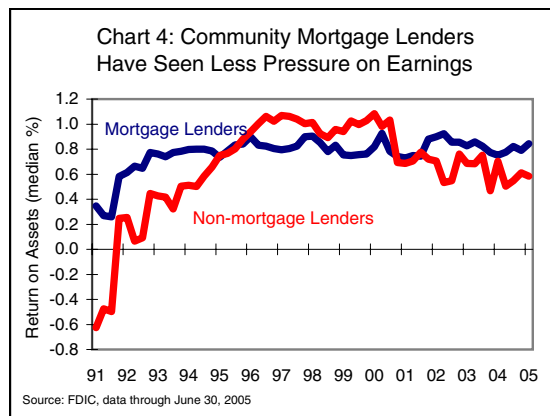
in asset yields. The mortgage lenders also reported low provision expenses that helped the bottom line.

### Connecticut's community institutions report low loan delinquencies.

- Loan quality has remained strong since the New England economy began to recover in the early 1990s. The median delinquent loan rate for both the community mortgage lenders and other community institutions was below 1 percent as of June 30, 2005 (see Chart 5).

### The hurricanes could increase energy costs and affect consumer spending.

- The direct effects from Hurricanes Katrina and Rita on Connecticut's economy were slight, but higher energy costs occasioned by the storms could be felt for some time. New England already has the highest residential cost per kilowatt hour of electricity in the country. This past year New England was the coldest region in the United States. Even before the hurricanes, a sharp increase in heating costs previously forecast for this year could reduce consumer purchases.



<sup>1</sup>Insured institutions with assets of less than \$1 billion, excluding institutions less than three years old and specialty institutions.

<sup>2</sup>Insured institutions with assets of less than \$1 billion with mortgage related assets greater than 50 percent of total assets.

## Connecticut at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.4%	0.3%	0.4%	-1.2%
Manufacturing (12%)	0.1%	0.7%	-1.7%	-1.2%	-5.3%
Other (non-manufacturing) Goods-Producing (4%)	7.9%	7.5%	7.5%	6.1%	-2.3%
Private Service-Producing (69%)	1.4%	1.6%	0.7%	0.8%	-0.4%
Government (15%)	0.0%	-0.3%	-1.6%	-1.5%	-1.3%
Unemployment Rate (% of labor force)	5.1	4.8	4.9	4.9	5.5

<b>Other Indicators</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	7.3%	6.4%	8.7%	6.8%	1.4%
Single-Family Home Permits	7.1%	-6.0%	3.3%	13.5%	-6.6%
Multifamily Building Permits	-13.4%	-0.2%	34.6%	26.9%	99.8%
Existing Home Sales	14.7%	15.7%	11.3%	14.2%	-1.1%
Home Price Index	13.6%	13.8%	11.5%	12.4%	8.4%
Bankruptcy Filings per 1000 people (quarterly annualized level)	3.94	3.31	3.54	3.28	3.70

**BANKING TRENDS**

<b>General Information</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	58	57	60	57	63
Total Assets (in millions)	64,032	62,510	60,331	60,727	55,885
New Institutions (# < 3 years)	3	3	4	3	7
Subchapter S Institutions	1	1	1	1	1

<b>Asset Quality</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.58	0.68	0.71	0.78	0.82
ALLL/Total Loans (median %)	1.09	1.16	1.15	1.13	1.18
ALLL/Noncurrent Loans (median multiple)	3.09	2.90	2.70	3.42	2.73
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.01	0.02

<b>Capital / Earnings</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	10.46	10.49	9.98	10.24	9.36
Return on Assets (median %)	0.85	0.80	0.76	0.83	0.82
Pretax Return on Assets (median %)	1.25	1.26	1.16	1.31	1.24
Net Interest Margin (median %)	3.77	3.76	3.57	3.71	3.66
Yield on Earning Assets (median %)	5.46	5.32	5.08	5.13	5.39
Cost of Funding Earning Assets (median %)	1.69	1.53	1.42	1.46	1.63
Provisions to Avg. Assets (median %)	0.05	0.05	0.01	0.04	0.06
Noninterest Income to Avg. Assets (median %)	0.60	0.50	0.51	0.51	0.55
Overhead to Avg. Assets (median %)	2.92	2.92	2.95	2.97	2.81

<b>Liquidity / Sensitivity</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	65.1	65.4	59.8	65.7	59.1
Noncore Funding to Assets (median %)	20.5	20.1	17.4	19.2	16.4
Long-term Assets to Assets (median %, call filers)	19.2	20.3	23.3	22.5	26.0
Brokered Deposits (number of institutions)	15	13	11	13	9
Brokered Deposits to Assets (median % for those above)	1.9	1.1	0.9	1.6	0.6

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q2-05</b>	<b>Q1-05</b>	<b>Q2-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	40.2	38.2	42.6	37.0	41.7
Commercial Real Estate	161.3	163.4	149.2	162.2	144.8
Construction & Development	38.9	42.0	35.7	36.9	31.7
Multifamily Residential Real Estate	7.4	7.8	3.7	6.0	3.7
Nonresidential Real Estate	109.7	107.0	100.0	109.9	96.4
Residential Real Estate	362.1	367.6	353.7	361.5	371.5
Consumer	5.4	5.5	8.1	5.9	10.0
Agriculture	0.0	0.0	0.0	0.0	0.0

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Hartford-West Hartford-East Hartford, CT	32	25,884	< \$250 million	25 (43.1%)
Bridgeport-Stamford-Norwalk, CT	25	23,106	\$250 million to \$1 billion	25 (43.1%)
New Haven-Milford, CT	24	15,866	\$1 billion to \$10 billion	6 (10.3%)
Norwich-New London, CT	13	3,935	> \$10 billion	2 (3.4%)